

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

(Amounts expressed in thousands)

The following is a discussion and analysis of the District of Columbia's (the District's) financial performance that provides an overview of the activities for the fiscal year ended September 30, 2003. This discussion and analysis should be read in conjunction with the District's basic financial statements and the notes to the basic financial statements, which begin on pages 34 and 49 respectively.

In June 1999, members of the Governmental Accounting Standards Board (GASB) unanimously approved issuance of the most comprehensive governmental reporting standard ever developed—GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB Statement No. 34, as amended by Statements No. 35, 37 and 38, was implemented by the District during fiscal year 2002.

GASB Statement No. 34 required that governments include new information and/or change the way that they report certain information: (1) management's discussion & analysis (new); (2) government-wide financial statements (new); (3) fund financial statements, and; (4) notes to financial statements. The District was already reporting many items in compliance with GASB Statement No. 34 before they were required. The GASB Statement No. 34 changes are designed to make the financial statements of governments more consistent in the treatment and application of transactions and balances. In addition, the modifications to the reports make them more easy to read and understood by the general public.

In May 2002, GASB issued Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*," which became effective for financial statement for periods beginning after June 15, 2003. GASB Statement No. 39 amends GASB Statement No. 14, "*The Financial Reporting Entity*," to provide additional guidance in determining whether certain organizations, for which the primary government is not financially accountable, should be reported as component units. The decisions are based on the nature and significance of their relationship with the primary government. The District has implemented GASB Statement No. 39 early. See Note 1. I., *New Accounting Standards Adopted*, on page 55, for additional detail about GASB Statement No. 39 implementation and impact.

The GASB issued Statement No. 40, "*Cash Deposits with Financial Institutions*" in March 2003. This statement establishes and modifies disclosure requirements related to investment risks, including custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The District and its component units are now required to disclose the amounts of deposit exposed to the various categories of deposit risk and the degree of risk associated with each category. Although GASB Statement No. 40 does not become effective until June 15, 2004, the District's implementation is already completed. See Note 1. I., *New Accounting Standards Adopted*, on page 55, for additional details about GASB Statement No. 40 implementation and impact.

In May 2003, GASB also issued Statement No. 41, *Budgetary Comparison Schedules—Perspective Differences*, an amendment of GASB Statement No. 34. The amendment to Statement No. 34 clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in not being able to present budgetary comparison information for their general fund and major special revenue funds. These governments are required to present budgetary comparison schedules as required supplementary information (RSI) based on the fund, organization, or program structure that the government uses for its legally adopted budget. This statement had no impact on the District's financial statements. See Note 1. I., *New Accounting Standards Adopted*, on page 55, for additional details about GASB Statement No. 40 implementation and impact.

The format and content of the CAFR this year is fully comparable to last year's CAFR. This year's CAFR includes direct, and extensive, comparisons with the previous year, and these comparisons will be included in all subsequent CAFRs. The focus of these comparisons is on both the District as a whole (government-wide), and the major individual funds.

Using This Annual Report

This annual report includes a series of financial statements. The *Statement of Net Assets*, Exhibit 1-a, and the *Statement of Activities*, Exhibit 1-b, on pages 34 to 35, present information about the financial activities of the District as a whole. These

two statements provide an overall view of the District's finances. The governmental fund financial statements, Exhibit 2-a, *Balance Sheet – Governmental Funds*, Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, Exhibit 2-c, *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, and Exhibit 2-d, *Budgetary Comparison Statement* on pages 36, 37, 38 and 39, respectively, show how these services were financed during the current year and the balances remaining for future spending. The fund financial statements focus on the most significant District funds and present operations in more detail. The other statements provide details for enterprise activities and other activities for which the District acts exclusively as a trustee or agent for the benefit of the non-governmental citizenry.

Reporting on the District as a Whole (Government-Wide Financial Statements)

The District, as a whole, now reports all assets and liabilities using the *accrual basis of accounting*. This method is similar to the accounting method used by most private-sector companies. In this way, all of the current year's financial activities are taken into account regardless of when cash is received or paid. The governmental activities and business-type activities are presented in two separate columns and combined to show totals for the primary government. The *Statement of Net Assets* and the *Statement of Activities* are two statements that present information and activities that help the reader determine the overall financial condition of the District. Readers can decide for themselves if the District's financial status has improved or deteriorated as a result of the current year's activities.

The District's current financial resources (short-term disposable resources) are reported along with capital assets and long-term obligations and are presented in the *Statement of Net Assets*. This report distinguishes between governmental activities, business-type activities and component units' activities. Total assets less total liabilities equal total net assets. The total net assets are the sum of these three components: 1) *invested in capital assets, net of related debt*, 2) *restricted assets* and 3) *unrestricted assets*. Over time and accounting periods, changes in the District's net assets are an indicator of its financial health. However, changes in population, property tax base, infrastructure deterioration and other non-financial factors must be incorporated in assessing the overall financial well being of the District.

The *Statement of Activities* summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities show the District's basic functional services while business-type activities reflect enterprise operations where a fee for services is expected to cover all or most of the costs of operations, including depreciation. Program/function expenses are reduced by program specific earned revenues, and by grants, that reduce net expenses for governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining program/function costs, resulting in an increase or decrease in net assets.

Financial Highlights

- Total restricted net assets decreased by (\$1,845), while total unrestricted net assets increased by \$67,574, or 10.8%. Total restricted net assets was \$1,103,522 and is made up of governmental activities' restricted net assets of \$841,374 and business-type activities' restricted net assets of \$ 262,148 . Total unrestricted net assets amounted to a negative (\$556,344) and is made up of a deficit in governmental activities unrestricted assets of (\$593,786) offset by business-type activities unrestricted assets of \$ 37,442 . Government-wide total net assets of \$1,066,755 show a decrease of \$ (73,090) from the previous year. See Table 1, *Net Assets as of September 30, 2003*, on page 22. Please also refer to the discussion on pages 23 for an explanation related to the deficit in governmental activities unrestricted net assets.
- The District's governmental fund financial statements report total governmental revenues of \$5,986,129 , an increase of \$66,138 over FY 2002 governmental funds of \$5,919,991. The general fund revenues of \$3,872,313 were made up of these amounts from the following categories: property taxes of \$901,887 , sales and use taxes of \$779,920 , income and franchise taxes of \$1,167,452 , gross receipts taxes of \$261,643 and other taxes of \$273,191, with other miscellaneous sources of general revenues amounted to \$488,220 . (From Exhibit 2b, *Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds*, page 37).
- General fund revenues increased by \$205,709, or 5.6% over FY 2002; federal and private resources revenues decreased by (\$172,472), or (8.7%); general capital improvements revenue increased by \$44,225, or 20.6% and non-major governmental funds revenues decreased by (\$11,325), or (18.8%) for a total governmental funds revenues increase of \$66,138 or 1.1%.

- Total governmental funds expenditures for the year were \$ 6,691,760 and the major expenditures were for Human Support Services - \$ 2,445,336 ; Public Education - \$ 1,155,297 ; and Public Safety & Justice - \$ 907,670 ; with other miscellaneous expenditures making up the remaining \$2,183,457 . These expenditures were paid from resources made available from general, federal and private resources, general capital improvements and non-major governmental funds. (From Exhibit 2b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 37).
- Total governmental funds expenditures increased by \$242,135 over FY 2002 expenditures of \$6,449,625, or 3.8%: Human Support Services increased by \$196,033, or 8.7%; Public Education increased by \$12,016, or 1.1%; Public Safety & Justice increased by \$8,554, or 1.0%; and other expenditures increased by \$25,482, or 1.2%.
- Governmental activities net capital assets amounted to \$4,379,361 at September 30, 2003, while business-type activities net capital assets were \$ 4,032 for total net capital assets of \$4,383,393. (From Table 1, *Net Assets as of September 30, 2003*, page 22). Depreciation expense for governmental activities for the fiscal year was \$ 200,651 . (Please see Note 1. U, *Reconciliation of Government-Wide and Fund Financial Statements*, page 60). FY 2003 net capital assets from governmental activities increased by \$ 478,544 , or 12.3%, over FY 2002 governmental activities while business-type activities net capital assets increased by \$ 2,537 , or (169.7%); and total capital assets increased by \$ 481,081 , or 12.3%.
- At September 30, 2003 the District's combined governmental funds reported total assets of \$2,422,579 , total liabilities of \$ 1,421,378 and total fund balances of \$ 1,001,201 . These fund balances are made up of reserved and unreserved amounts for the general funds, special revenue funds, and capital project expenditures. (From Exhibit 2-a, *Balance Sheet – Governmental Funds*, page 36).
- Total assets decreased from last year by (\$54,870), or (2.2%), total liabilities decreased by (\$189,601), or (11.8%), and total fund balances increased by \$134,731, or 15.5%.

The District's Financial Condition

The MD&A guidelines require that the District provide its citizens with an assessment of the condition of the District in its entirety, including the year's operating results, to assist the citizenry in:

- Determining whether the District's overall financial position improved or deteriorated;
- Evaluating whether the District's current-year revenues were sufficient to pay for current-year services;
- Understanding the extent to which the District has invested in capital assets, including roads, bridges, and other infrastructure assets; and
- Making better comparisons between the District and other governmental jurisdictions or entities.

There are various ways to measure the District's financial responsibility and performance. Some of the indicators of the District's improved financial position are:

- The District finished the year with total expenditures within budget.
- The General Fund produced a budgetary surplus of \$53,684.
- The District's General Fund accumulated fund balance is \$897,357, an increase of \$1,415,606 since FY 1996.
- The District's legal debt limitation would allow the District to pay up to 17.0% of its total revenues for debt service this year, whereas the District's FY 2003 debt service was 8.6% of total revenues, or about 50.6% of the limit.
- The District is now beginning to invest larger amounts of funds in infrastructure assets.

This brief assessment is in no way meant to replace reading the entire CAFR, especially the MD&A, the Notes and the Financial Statements, to further understand how the District's financial condition has changed during the past fiscal year. In

particular, please read the information on the District's structural imbalance on page 2. That section summarizes the United States General Accounting Office's report "*District of Columbia – Structural Imbalance and Management Issues*."

The Proprietary Funds

The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery) and the Unemployment Compensation Fund (Unemployment). The District has moved three small proprietary activities from the General Fund into the proprietary funds this fiscal year. These are shown as a group under the column "Non-Major Proprietary Fund." Proprietary funds are District units that charge customers for the services provided, whether to outside customers or to other units of the District. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

Total net assets, as of September 30, 2003, for Lottery, Unemployment and non-major proprietary funds were \$ 3,562 , \$262,148, and \$35,234 respectively. Total net assets for Lottery increased in fiscal year 2003 by \$ 77 , or 2.2%, and decreased for Unemployment by \$ (9,213), or (3.4%). Net cash provided by (used in) operating activities for Lottery, Unemployment and non-major proprietary funds was \$ 74,167 , \$ (49,612), and \$(12,324) respectively. Please refer to Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, and Exhibit 3-c, *Statement of Cash Flows – Proprietary Funds*, pages 40, 41 and 42 respectively for more detailed information.

The Component Units

The District currently has five Component Units: the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia. Component units are legally separate organizations for which the elected officials of the District are financially accountable. Accountability exists because the Mayor, with the consent of the Council, or other District officials, appoints the governing bodies of all of the component units. In addition, the District has an obligation to provide financial support to the Convention Center, the Sports and Entertainment Commission, and the University of the District of Columbia, and certain tax revenues are dedicated to each of these organizations. The financial data of the component units are reported separately from the financial data of the primary government.

The five component units had combined total assets of \$4,220,606 , combined total liabilities of \$ 2,922,983 and combined total net assets of \$ 1,297,623 . The component units had combined total operating revenues of \$ 375,553 and combined total operating expenses of \$ 399,304 , resulting in a combined operating loss of \$23,751 a decrease of \$6,664 from FY 2002. The FY 2003 total change in net assets of \$60,454 was a decrease from the FY 2002 total change in net assets of \$90,104, or 33.2%. Each of the component units prepares its own independently audited financial statements, which is also accompanied by an MD&A. Please see Exhibit 5a, *Discretely Presented Component Units - Combining Statement of Net Assets*, page 46, and Exhibit 5b, *Discretely Presented Component Units - Combining Statement of Revenues, Expenses and Changes in Net Assets*, page 47, for more detailed financial information on the component units.

Short-Term Debt

The District issues short-term debt, when necessary, to finance seasonal cash flow needs. This need occurs due to the timing variance between receipts of taxes, grants and other revenues and the outflow of funds for governmental operations and other required disbursements. The District issued \$150,000 in General Obligation Tax Revenue Anticipation Notes on October 30, 2002 which were repaid on September 30, 2003. Whenever the District issues short-term debt, it must be paid off in its entirety by September 30 of that fiscal year.

Long-Term Debt and Bond Ratings

As of September 30, 2003, the District had \$ 3,251,118 in serial and term general obligation bonds, \$ 125,524 in tax increment financing (TIF) notes and bonds, \$ 506,550 in tobacco bonds and \$ 3,327 in qualified zone academy bonds outstanding. As of the end of fiscal year 2002, these amounts were as follows: \$ 2,670,573 in serial and long-term general obligation bonds, \$ 126,545 in TIF notes/bonds and \$ 514,280 in tobacco bonds and \$3,582 in qualified zone academy bonds outstanding.

Between FY 2003 and FY 2002, there was an increase in outstanding general obligation bonds of \$ 580,545 after debt payments of \$ 284,660 , a decrease in TIF obligations of \$ (1,021), a decrease in tobacco bonds of \$ (7,730), and a decrease

in qualified zone academy bonds outstanding of (\$255). (Please see Note 7. *Long-Term Liabilities*, pages 73-80 for a more detailed discussion).

On October 15, 2002, the District issued \$75,900 and \$74,000 in capital bonds, (Series 2002A-1 and 202A-2) respectively, with both series to mature on June 1, 2019. Also on October 15, 2002, the District issued \$112,225 and \$112,075 in capital bonds, (Series 2002B-1 and 202B-2) respectively, with both series to mature on June 1, 2019. On October 31, 2002, the District issued \$38,175 in general obligation refunding bonds, (Series 2002C), scheduled to mature on June 1, 2014 and \$124,995 in multimodal general obligation refunding bonds, (Series 2002D), scheduled to mature on June 1, 2031. On July 31, 2003, the District issued \$327,835 in general obligation bonds, (Series 2003A), scheduled to mature on June 1, 2028.

In March, Moody's Investors Service upgraded the District's bond rating from "stable" to "positive." The positive outlook stems from the financial results shown in the FY 2002 Annual Audit and the District's action taken to close a large projected budget gap in FY 2003. In June, the D.C. Mayor and CFO jointly announced that Fitch Ratings and Standard and Poor's had also upgraded the District's General Obligation Bonds to A- from BBB+, thus demonstrating that the District continues to receive the confidence of Wall Street analysts.

The improved bond ratings allows the District to either refinance outstanding debt, or to issue new debt, at more favorable rates than in the past when the District's financial and operational difficulties required the District to pay substantially higher interest rates for its debt. Reduced rates translate into reduced debt service payments, resulting in a greater percentage of the District's budget being available for the needed services and operations for its citizens.

Financial Analysis of the Government as a Whole

Comparative information for assets, liabilities, net assets, and revenues are now available, given that this is the second year of the GASB Statement No. 34 implementation. Beginning with this FY 2003 CAFR, all future CAFRs will be completed with comparative reporting showing the differences between the current year's budget and actual amounts, in addition to showing selected differences between the current fiscal and the prior fiscal year. There are always variances between budget and actual, and also between fiscal years, but it is more helpful for the reader if the focus is on significant variances, or changes.

Table 1, *Net Assets as of September 30, 2003*, shows net assets from governmental activities and business-type activities, and the combined totals. The District has \$6,538,055 in total assets from governmental activities and \$419,677 from its business-type activities, for a total of \$6,957,732. Total liabilities are \$5,772,244, \$118,733, and \$5,890,977 respectively for governmental activities, business-type activities and the total of the two. The District, by deducting the total liabilities from the total assets, is showing net assets of \$765,811 for governmental activities, \$300,944 for business type activities, and total net assets of \$1,066,755.

For FY 2002 the District had \$6,066,755 in total assets from governmental activities and \$386,233 from its business-type activities, for a total of \$6,452,988. The total liabilities associated with these amounts were \$5,201,756, \$111,387 and \$5,313,143 respectively for governmental activities, business-type activities and the total of the two. By deducting the total liabilities from the total assets, the District showed net assets of \$864,999 for governmental activities, \$274,846 for business type activities for total net assets of \$1,139,845.

The District's combined total net assets decreased by \$ (73,090) in fiscal year 2003. This decrease is the combination of governmental activities decrease of \$ (99,188) and an increase for business-type activities of \$ 26,098. Please refer to Table 2, *Change in Net Assets as of September 30, 2003*, on page 23.

The District had \$1,103,522 in total restricted net assets as of September 30, 2003, which is made up of \$ 841,374 from governmental activities and \$ 262,148 from its business-type activities. At the same time, the District is showing a negative (\$556,344) in unrestricted net assets, which is the result of negative unrestricted net assets from its governmental activities of (\$593,786) and positive unrestricted net assets of \$ 37,442 from business-type activities.

Table 1 - Net Assets as of September 30, 2003

	Governmental activities		Business-type activities		Totals		
	2003	2002	2003	2002	2003	2002	Variance
Current and other assets	\$ 2,158,694	\$ 2,165,938	\$ 415,645	\$ 384,738	\$ 2,574,339	\$ 2,550,676	\$ 23,663
Capital assets	4,379,361	3,900,817	4,032	1,495	4,383,393	3,902,312	481,081
Total assets	6,538,055	6,066,755	419,677	386,233	6,957,732	6,452,988	504,744
Long-term liabilities	4,365,833	3,635,149	64,906	70,158	4,430,739	3,705,307	725,432
Other liabilities	1,406,411	1,566,607	53,827	41,229	1,460,238	1,607,836	(147,598)
Total Liabilities	5,772,244	5,201,756	118,733	111,387	5,890,977	5,313,143	577,834
Net assets:							
Invested in capital assets, net of related debt	518,223	656,901	1,354	1,495	519,577	658,396	(138,819)
Restricted	841,374	834,006	262,148	271,361	1,103,522	1,105,367	(1,845)
Unrestricted	(593,786)	(625,908)	37,442	1,990	(556,344)	(623,918)	67,574
Total net assets	\$ 765,811	\$ 864,999	\$ 300,944	\$ 274,846	\$ 1,066,755	\$ 1,139,845	\$ (73,090)

The District had \$1,105,367 in total restricted net assets at September 30, 2002. This amount was the result of \$834,006 from governmental activities and \$271,361 from its business-type activities. At the same time, the District showed a negative (\$623,918) in unrestricted net assets, which was the result of negative unrestricted net assets from its governmental activities of (\$625,908) and positive unrestricted net assets of \$1,990 from business-type activities.

In FY 2003, total restricted net assets decreased by (\$1,845), or essentially unchanged, and was composed of an increase of \$7,368, or 0.9%, for governmental activities, and a decrease of (\$9,213), or (3.4%), from business-type activities.

The D.C. Lottery transferred \$72,050 of its income to the District, which was a \$9,050 increase over last year's transfer. Each year, the D.C. Lottery transfers substantially all of its net income to the District. There was also a transfer to establish a new non-major proprietary fund of \$34,476 from proprietary activities that had been included as governmental activities. The net of these two transfers, was a net transfer to the governmental activities of \$37,574. Please see Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, on page 41. The \$72,050 transfer from the business-type activities (D.C. Lottery) is shown as a reduction, and the transfer to governmental activities is shown as an increase, so there is no effect on the District's total net assets.

Fund balances in the fund financial statements will generally differ from net assets in the government-wide financial statements due to the difference in the measurement focus and basis of accounting used in the respective financial statements. Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting. The Government-wide financial statements focus on all the economic resources of the District and use the full accrual basis of accounting, which is similar to the accounting method used by most private sector companies. These differences may result in the Government-wide statements reflecting negative unrestricted net assets.

Please refer to Note 1.U – *Reconciliation of Government-Wide and Fund Financial Statements*, on pages 60, for additional information on how to understand the differences between the two bases of accounting that the District uses in this Report.

Table 2 - Change in Net Assets as of September 30, 2003

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:					-	-
Program revenues:						
Charges for services	\$ 323,161	\$ 286,044	\$ 272,014	\$ 211,151	\$ 595,175	\$ 497,195
Operating grant and contributions	1,833,060	1,890,544	55,356	49,308	1,888,416	1,939,852
Capital grants and contributions	176,449	161,450	-	-	176,449	161,450
General revenues:						
Property taxes	899,665	809,069	-	-	899,665	809,069
Other taxes	2,482,206	2,425,415	82,626	104,945	2,564,832	2,530,360
Other	368,439	353,226	19,593	18,978	388,032	372,204
Total revenues	6,082,980	5,925,748	429,589	384,382	6,512,569	6,310,130
Expenses:						
Governmental direction and support	504,513	451,863	-	-	504,513	451,863
Economic development and regulation	252,716	323,804	-	-	252,716	323,804
Public safety and justice	936,797	920,599	-	-	936,797	920,599
Public education system	1,168,545	1,153,719	-	-	1,168,545	1,153,719
Human support services	2,572,881	2,267,597	-	-	2,572,881	2,267,597
Public works	312,704	279,506	-	-	312,704	279,506
Public transportation	272,726	184,883	-	-	272,726	184,883
Interest on long-term debt	178,301	175,241	-	-	178,301	175,241
Fiscal charges	20,559	19,746	-	-	20,559	19,746
Lottery and games	-	-	166,185	148,670	166,185	148,670
Unemployment compensation	-	-	165,045	191,043	165,045	191,043
Nursing home services	-	-	34,687	-	34,687	-
Total expenses	6,219,742	5,776,958	365,917	339,713	6,585,659	6,116,671
Increase in net assets before transfers and special items	(136,762)	148,790	63,672	44,669	(73,090)	193,459
Special item – loss on disposal	-	(171,094)	-	-	-	(171,094)
Transfer to nonmajor proprietary funds	(34,476)	-	34,476	-	-	-
Transfer from lottery and games	72,050	63,000	(72,050)	(63,000)	-	-
Increase (decrease) in net assets	(99,188)	40,696	26,098	(18,331)	(73,090)	193,459
Net assets - Oct 1, 2002	864,999	824,303	274,846	293,177	1,139,845	1,117,480
Net assets - Sept 30, 2003	\$ 765,811	\$ 864,999	\$ 300,944	\$ 274,846	\$ 1,066,755	\$ 1,310,939

Chart 1 shows various sources of revenues. This chart is a visual presentation of the numbers that were just discussed in Table 2, *Change in Net Assets* as of September 30, 2003 page 23.

Chart 1 - Revenues by Source - Governmental Activities

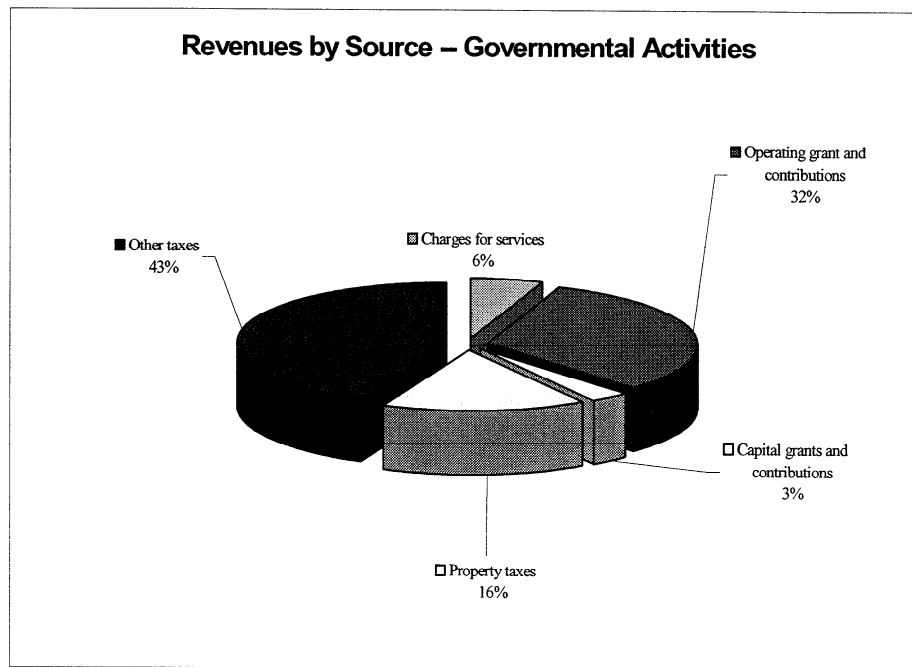
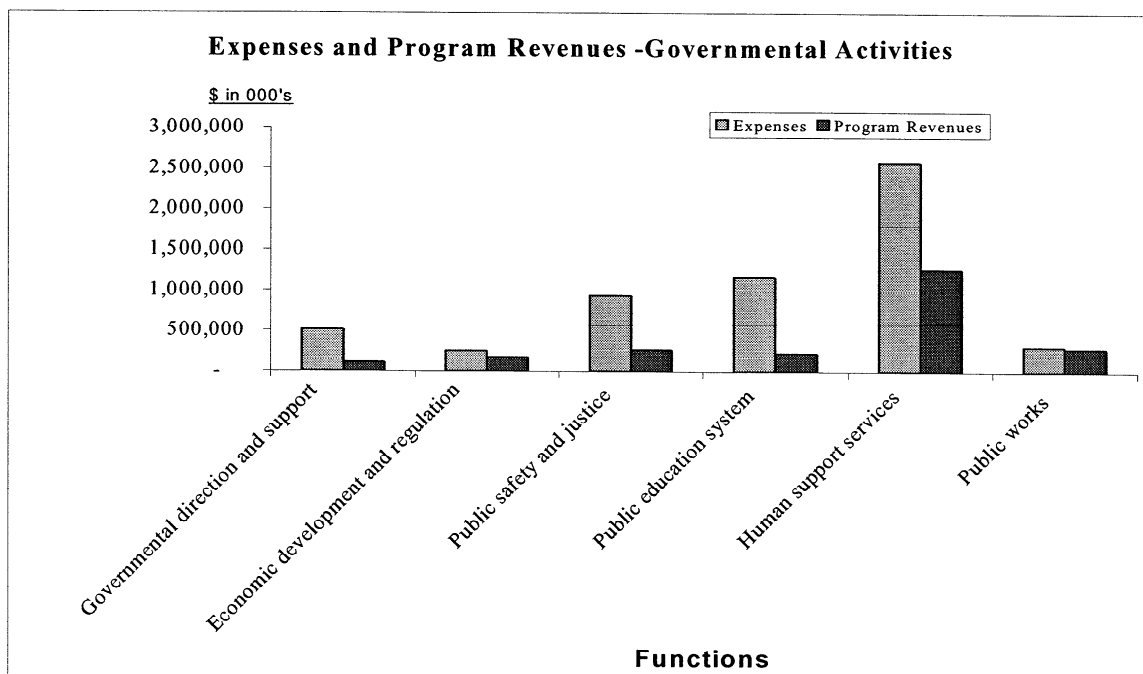


Chart 2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities are governmental direction and support, economic development and regulation, public safety and justice, public education system, human support services and public works.

Chart 2 - Expenses and Program Revenues – Governmental Activities



Reporting on the District's Most Significant Funds

The fund financial statements presentation will be more familiar to regular readers of the traditional CAFR. Starting in FY 2002, the focus is on major funds and not on fund types. Major funds, as defined by GAAP, are presented individually, with non-major governmental funds combined in a single column. Sources and uses of resources assigned through the financial planning and budgeting process measure the District's ability to fund operations in the short-term.

District laws, bond covenants, and other legal stipulations cause funds to be established for specific purposes and to report on the activities related to supplies and services that they provide to the general public. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. The District's funds are presented in three categories or groups – governmental, proprietary and fiduciary.

Governmental Funds

The governmental fund financial statements relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending. Most basic services are found in this fund category and are reported as General, Federal and Private Resources, General Capital Improvements, and Non-major Governmental Funds. These funds are reported using the *modified accrual accounting basis*, which measures cash and other financial assets that can be readily converted to cash. Please refer to Exhibit 2-a, *Balance Sheet – Governmental Funds* and Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, pages 36 and 37, for more detailed information about this section.

The District reported the following total assets in its governmental funds balance sheet: \$1,624,739 in its general fund, \$578,096 in federal & private resources, \$115,906 in general capital improvements, and \$103,838 in non-major governmental funds, for total governmental fund assets of \$2,422,579 as of September 30, 2003. Last year The District reported the following total assets in its governmental funds balance sheet: \$1,616,535 in its general fund, \$519,473 in federal & private resources, \$166,626 in general capital improvements, and \$174,815 in non-major governmental funds, for total governmental fund assets of \$2,477,449 as of September 30, 2002.

Comparing this year's results to last year shows that: total assets in the District's general fund balance sheet increased by \$8,084, or 0.5%; federal & private resources increased by \$58,623, or 11.3%; general capital improvements decreased by (\$50,720), or (30.4%); non-major governmental funds assets decreased by (\$70,977), or (40.6%), and; total governmental funds assets decreased by (\$54,870), or (2.2%).

The District reported the following liabilities in its governmental funds balance sheet: \$ 727,382 in its general fund, \$ 427,876 in federal & private resources, \$ 257,710 in general capital improvements, and \$ 8,410 in non-major governmental funds, for total governmental fund liabilities of \$1,421,378. Please see Exhibit 2-a, *Balance Sheet – Governmental Funds*, page 36, for more detailed information. Last year, the District reported the following liabilities in its governmental funds balance sheet: \$751,207 in its general fund, \$283,674 in federal & private resources, \$556,156 in general capital improvements, and \$19,942 in non-major governmental funds, for total governmental fund liabilities of \$1,610,979.

The FY 2003 results when compared to last year shows the following: total liabilities in the District's general fund balance sheet decreased by (\$23,825), or (3.2%); federal & private resources liabilities increased by \$144,202, or 51.5%; general capital improvements liabilities decreased by (\$298,446), or (53.7%); non-major governmental fund liabilities decreased by (\$11,532)or (57.8%), and; total governmental fund liabilities decreased by (\$189,601), or (11.8%).

The District reported the following revenue amounts in the governmental funds: \$ 3,872,313 , or 64.7%, in the general fund, \$ 1,805,969 , or 31.1%, in federal & private resources, \$ 258,992 , 4.3%, in general capital improvements, and \$ 48,855 , or .8%, in non-major governmental funds, for a total of \$ 5,986,129 for the year ended September 30, 2003. In FY 2002, the District reported the following revenue amounts in its governmental funds: \$3,666,604 in its general fund, \$1,978,440 in federal & private resources, \$214,767 in general capital improvements, and \$60,180 in non-major governmental funds, for a total of \$5,919,991. The year-to-year comparisons results in revenue amounts in its governmental funds that show an: increase of \$205,709, or 5.6%, in its general fund, a decrease of (\$172,471), or (8.7%) in federal & private resources; an increase of \$44,225 in general capital improvements, or 20.6% and; a decrease in non-major governmental funds of (\$11,325), or(18.8%), for an overall increase in governmental funds revenues of \$66,138 or 1.1%.

The District reported the following expenditure amounts in its governmental funds: \$ 3,769,141 in its general fund, \$ 1,990,623 in federal & private resources, \$ 823,398 in general capital improvements, and \$ 108,598 in non-major governmental funds, for a total of \$ 6,691,760 in governmental fund expenditures for the year ended September 30, 2003. For the year ended September 30, 2002, the District reported the following expenditure amounts in its governmental funds: \$3,668,559 in its general fund, \$1,783,501 in federal & private resources, \$814,129 in general capital improvements, and \$183,436 in non-major governmental funds, for a total of \$6,449,625. The year-to-year change was: an increase of \$100,582 for general funds expenditures, or a 2.7%; an increase of \$207,122 in federal & private resource expenditures, or 11.6%; an increase of \$9,269 in general capital improvements expenditures, or 1.1%; a decrease of (\$74,838) in non-major governmental funds expenditures, or (40.8%) and; an overall increase of governmental funds expenditures of \$242,135, or 3.8%.

The general fund had an excess of revenues over expenditures of \$103,172; while federal & private resources had a deficiency of revenues under expenditures of (\$184,654); general capital improvements had a deficiency of revenues under expenditures of (\$564,406); non-major governmental funds had a deficiency of revenues under expenditures of (\$59,743). This resulted in a combined deficiency of total revenues under total expenditures of (\$705,631). With the addition of \$840,362 from other financing sources, the net FY 2003 governmental funds change in fund balances was \$134,731, resulting in a total combined governmental funds balance of \$1,001,201 as of September 30, 2003. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 37, for more detailed information.

The major expenditures of total governmental funds was for human support services, which spent \$2,445,336; public education system spent \$1,155,297, public safety and justice spent \$907,670, and capital outlay spent \$762,145, which was 36.5%, 17.3%, 13.6%, and 11.41%, respectively of the total governmental funds expenditures of \$6,691,760.

General capital improvements expenditures of \$ 823,398 exceeded the general capital improvements revenues of \$ 258,992 by \$ (564,406), which created the deficiency shown. What this means is that the District is investing more in capital improvements than the available current year revenues before considering current year bond proceeds. The deficiency is being financed through the transfer of bond proceeds. The District is rapidly investing in infrastructure and other improvements to encourage residents and businesses to stay in the District and also to attract new residents and businesses to move into the District. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances*, page 37, for more detailed information.

The net change in the general capital improvements fund for fiscal year 2003 was an increase of \$ 247,726 after other financing sources of \$ 812,132 was added to the \$ (564,406) deficit mentioned above. It is the District's financial policy to issue general obligation bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures as opposed to the amount budgeted on an annual basis. The District authorizes agencies to spend their annual appropriated budget in advance of financing. The general fund advances the amount of the funding, and is repaid with the proceeds from the bonds when issued. This allows the District to determine when it will enter the market to issue bonds based upon cash flow needs, favorable market rates and the number of municipal debt financing and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximizes the pool of potential investors for the District's debt issuances.

Proprietary Funds

Proprietary funds provide supplies and services to the general public and use *accrual accounting* for reporting purposes. The District recognizes two major funds: Lottery and Games (Lottery), Unemployment Compensation (Unemployment); and one non-major proprietary fund in this classification. The non-major proprietary fund includes the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center. The following two charts, Chart 3, *Expense and Program Revenues – Business-Type Activities* and Chart 4, *Revenues by Source – Business-Type Activities*, give a visual comparative presentation of the revenues and expenses of the three funds

The graphic comparisons in Charts 3 and 4 are based upon financial information in Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, page 40, and Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, page 41. Please refer to these exhibits and the prior discussion on page 20 of the MD&A for more detailed financial information on proprietary funds.

Chart 3 – Expenses and Program Revenues – Business-type Activities

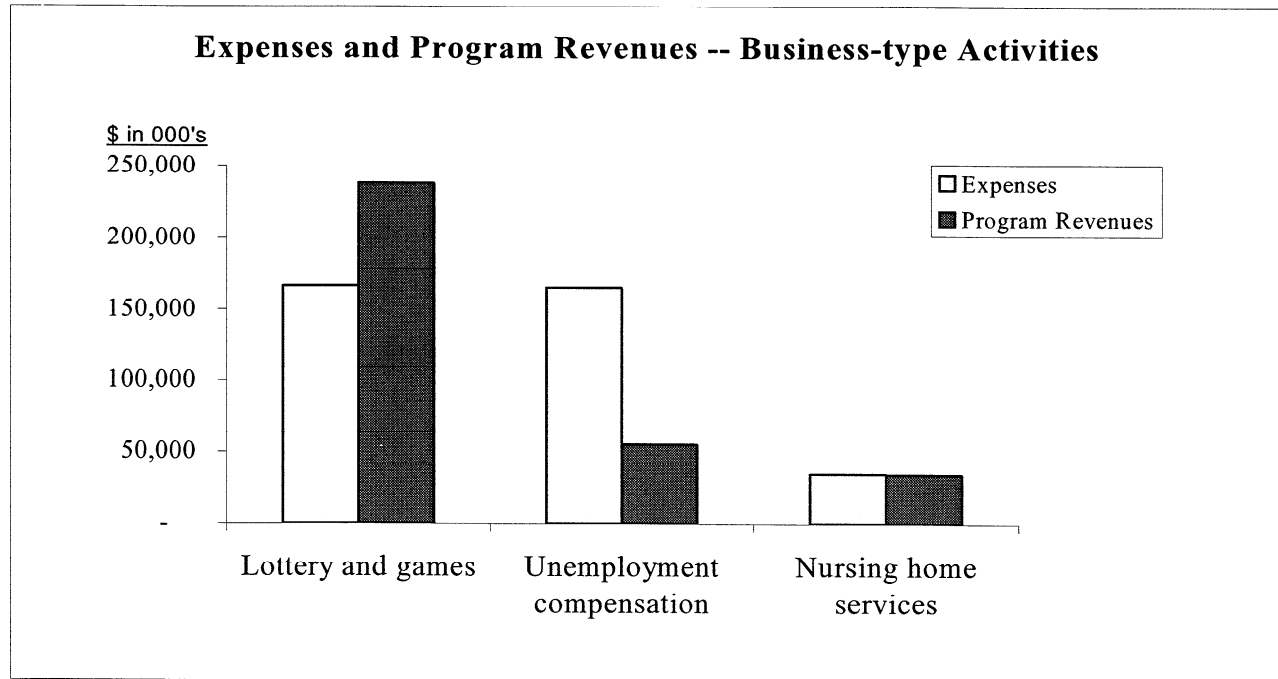
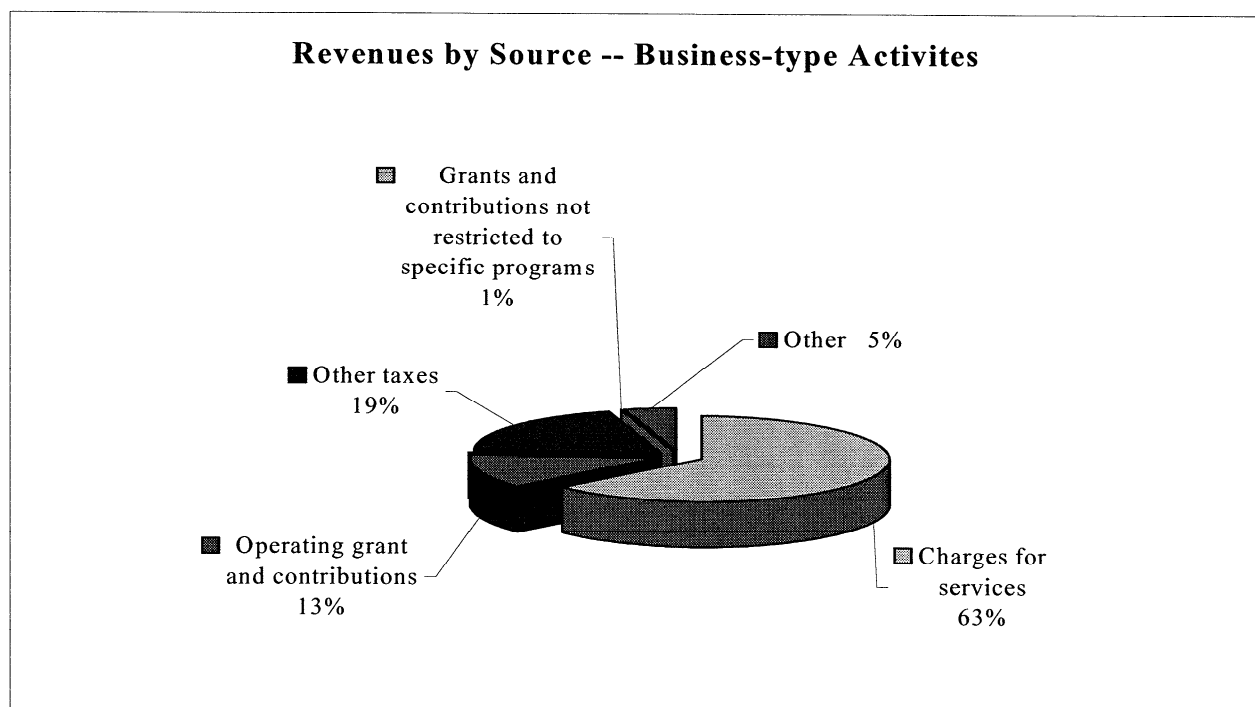


Chart 4 – Revenues by Source – Business-type Activities



Fiduciary Funds

The District is the *trustee* or *fiduciary* for its employees' pension plans. The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. All fiduciary activities are reported in the Exhibit 4-a, *Statement of Fiduciary Fund Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Fund Net Assets* on pages 43 and 44, respectively. These activities are excluded from the District's other financial statements because these resources are restricted and are therefore not available for financing other operations.

The District's fiduciary funds show total assets of \$ 2,402,303 for its pension trust funds, \$13,820 for its private purpose trust fund, and agency funds of \$107,838 as of September 30, 2003. The fiduciary funds show total liabilities of \$ 182,100 , \$ 48 , and \$107,838, respectively, for pension trust funds, private purpose trust funds and agency funds. The net assets restricted for pension benefits are \$ 2,220,203 , and \$13,772 for private purpose trust funds. Agency funds have no asset balance because these are funds that are being held by the District as an agent for others.

Private-purpose trust funds are used to report any trust arrangement not reported in pension funds or investment trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to D.C. residents as well as non-residents nationwide. This plan is reported in the Private-purpose trust fund, and did not exist last year. Please see Note 1-E, *Fiduciary Funds – Private Purpose Trust Funds* on page 50.

Compared with the previous year, pension trust funds total assets increased by \$442,307, or 22.6%, agency funds total assets decreased by (\$6,415), or (5.6%). Pension trust funds total liabilities increased by \$39,047, or 27.3%, and agency funds total liabilities decreased by (\$6,415), or (5.6%). Agency funds assets and liabilities must always be in balance. Net assets restricted for pension benefits increased by \$403,260, or 22.2% over the previous year. These increases were the result of an improvement in the financial markets and an increase in the prices of securities selected and invested in by fiduciary trust fund managers

General Fund Budget

The originally formulated general fund budget estimated total revenues and other sources of \$3,767,720 and total expenditures and other uses of \$3,767,274, showing a projected budgetary surplus of \$446. The general fund budget was revised, resulting in estimated total revenues and other sources of \$3,840,834 and total expenditures and other uses of \$3,850,405, resulting in a projected budgetary deficit of (\$9,571). Please refer to Table 3, *Fiscal Year 2002 – General Fund Budgetary Highlights* on page 29 for more details.

The District's budget is always subject to revision and/or veto by the United States Congress and President of the United States. As the budget moves through the federal budgetary process, the budget is subject to additions, deletions and changes in both the amounts and the purposes. In addition, as the District's CFO prepares revised revenue estimates, the District must revise the budget submission in order to conform to the new estimates. Before the FY 2002 budget was enacted, the CFO's revised estimates required that the District revise its budget submission. While this does not occur every year, it is always a possibility, dependent upon both the national and the local economies. The budget has to be balanced, as required by U.S. and District Laws.

The fiscal year 2003 budget required significant revisions and \$73,114 was added to the total general fund budgeted revenues which resulted in the revised \$3,840,834 amount. The components of these changes were as follows: property taxes were increased by \$40,261, grants and contributions were increased by \$71,232 and all other sources were increased by \$52,040 for a total increase in these budget elements of \$163,533. These amounts were offset by reductions in other taxes of (\$81,579) and charges for services of (\$8,840), for a total decrease in these budget elements of (\$90,419), and adding up to the overall budget increase of \$73,114. Total general fund budgeted expenditures were revised to \$ 3,850,405 , an increase of \$83,131, which was caused primarily by the shifting of undesignated budget reserves to specific expenditure uses. These revisions resulted in a projected budgetary deficit of \$ (9,571), but were essentially a balanced budget, due to the fact that the U.S. Congress allowed the District to expend FY 2004 funds in advance for public education expenditures. This was done in order to allow the D.C. public school system to speed up the completion of repair and construction projects, and to order needed school supplies for the next school year, prior to the beginning of the fiscal year. Without this advance, the District would have shown a budgetary excess of \$25,394 instead of the deficit of (\$9,571).

Table 3 - Fiscal Year 2003 General Fund Budgetary Highlights

	Budget			Variance
	Original	Revised	Actual	Over(under)
Revenues and Other Sources:				
Property taxes	\$ 856,811	897,072	901,888	4,816
Other taxes	2,371,016	2,289,437	2,391,486	102,049
Charges for services	294,130	285,290	303,857	18,567
Other sources and contributions	156,378	227,610	164,645	(62,965)
All other sources	89,385	141,425	104,980	(36,445)
Total revenues and other sources	3,767,720	3,840,834	3,866,856	26,022
Expenditures and Other Uses:				
Governmental direction and support	226,319	221,429	209,864	(11,565)
Economic development and regulation	146,328	197,482	135,234	(62,248)
Public safety and justice	611,202	676,700	659,479	(17,221)
Public education system	929,339	888,296	881,760	(6,536)
FY04 public education expenditures	-	34,965	34,965	-
Human support services	1,083,196	1,181,598	1,262,711	81,113
Public works	313,688	319,213	306,668	(12,545)
Other	457,202	330,722	322,491	(8,231)
Total expenditures and other uses	3,767,274	3,850,405	3,813,172	(37,233)
Excess (deficit) -- budgetary basis	\$ 446	(9,571)	53,684	63,255

The actual results for fiscal year 2003 for the general fund were total revenues and other sources of \$ 3,866,856 , which were \$ 26,022 more than the projected amount, or 0.7%. Total actual expenditures and other uses were \$ 3,813,172 , which were \$ (37,233) less than the budgeted amount, or (1.0%). In this case, less expenditures is actually more on a budgetary basis, and the overall result was that the District actually ended up with a general fund budgetary excess, or surplus, of \$ 53,684 , which turned out to be \$ 63,255 more than projected in the revised general fund budget, or 1.6%. Please refer to Exhibit 2-d, *Budgetary Comparison Statement* on page 39 for details of the actual budgetary variances.

Total general fund property and other taxes collected in FY 2003 were \$106,865 more than expected in the District's revised FY 2003 budget, in addition to \$19,930 more in miscellaneous revenues; \$16,455 more from charges for services; \$11,403 in general obligation bonds proceeds; and \$3,970 more in interfund transfers and federal contributions. This was offset by the District collecting (\$63,485) less than expected from other sources; (\$51,298) less in fund balances released from restrictions; (\$15,707) less from fines and forfeits, and; (\$2,111) less from licensees and permits. The positive variances from taxes and charges for services of \$158,623 more than offset the negative variance from grants and contributions and all other sources of (\$132,601) and resulted in an overall positive variance of \$26,022 in total revenues and other sources.

The majority of the District's funds come from the collection of taxes, along with other local sources, such as licenses and permits, fines and forfeitures and charges for services. The two other main sources of revenues are federal and private resources, which include both contributions and operating grants. In fiscal year 2003, the District originally budgeted for \$47,293 in federal contributions, and subsequently revised its budgeted amount to \$114,431 . The actual federal contribution was \$94,043, which was (\$20,388), or (25.5%) less than budgeted. The District revised its budget for operating grants to \$1,703,554, but only received \$1,447,001, a decrease of (\$256,553), or (15.1%) less than expected. Total federal and private resources were (\$276,941) less than budgeted for, or (14.4%).

Overall, the District is showing a negative variance for total revenues and other sources of (\$250,919) from the budgeted amount of \$5,759,154, or (4.4%). Please see Exhibit 2-d, *Budgetary Comparison Statement* on page 39 for additional details on the District's FY 2003 budgetary results.

Total general fund expenditures in FY 2003 were \$3,813,172, or \$37,233, and 1.0%, more than expected in the District's revised FY 2003 budget. The two largest general fund expenditure variances were the negative variance of (\$81,113) in Human Support Services, and the positive variance of \$62,248 in Economic Development and Regulation. During the time that the District's Department of Mental Health was in Receivership, Medicaid and Medicare receivables were being carried forward each year. A comprehensive analysis of these receivables in FY 2003 resulted in the District's decision this year to write off these uncollectible receivables. The positive economic development and regulation variance is caused primarily by increased economic activity in the District, as more high priced properties change hands, new businesses are established, or current businesses increase their activities and financial resources.

Capital Assets

As of September 30, 2003 the District had \$4,379,361 in governmental activities net capital assets and \$ 4,032 in business-type activities net capital assets, for a total of \$4,383,393 invested in net capital assets. These capital assets include, but are not limited to, land, buildings, police and fire equipment, park facilities, roads and bridges. The governmental activities depreciation charges for the current fiscal year totaled \$ 200,651 . The general capital improvements fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants or debt. Please see Table 4, *Net Capital Assets*, below for more details.

The District's capital assets increased by \$481,081 or 12.3% over its investment in capital assets as of September 30, 2002. This amount was made up of an increase of governmental activities capital assets of \$478,544 or 12.3% and an increase in capital assets from business-type activities of \$2,537, or 169.7%. The District's depreciation charges increased by \$45,362, or 29.2%. The District's capital assets are increasing because the District is investing more resources in new and rehabilitated infrastructure, such as roads, bridges and buildings.

The District installed, and began using, a Fixed Asset Module (FAS) in fiscal year 2002. FAS is intended to allow for more accurate and consistent information on the District's capital assets, by requiring agencies that purchase such assets to update the system with type of asset (e.g., land, buildings, equipment, vehicles, etc.) acquisition date, acquisition and/or construction cost, useful life, location, etc. Please see Note 5. - *Capital Assets* for a more complete discussion of the District's capital assets, on pages 67-72.

Table 4 – Net Capital Assets as of September 30, 2003

Asset Category	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 219,076	\$ 219,076	\$ -	\$ -	\$ 219,076	\$ 219,076
Buildings	1,432,360	1,300,191	-	-	1,432,360	1,300,191
Infrastructure	1,360,222	1,172,384	-	-	1,360,222	1,172,384
Equipment	228,902	202,734	4,032	1,495	232,934	204,229
Construction in progress	1,138,801	1,006,432	-	-	1,138,801	1,006,432
Total net capital assets	\$ 4,379,361	\$ 3,900,817	\$ 4,032	\$ 1,495	\$ 4,383,393	\$ 3,902,312

Outstanding Bonds and Notes

At September 30, 2003 the District had a total of \$3,886,519 in general obligation bonds, TIF Bonds and Notes, Qualified Zone Academy Bonds (QZAB), and Tobacco Bonds outstanding. Please refer to Table 5, *Outstanding Bonds and Notes at September 30, 2003*, on page 31. This is an increase of \$ 571,539 over last year's figure of \$ 3,314,980 . This is the result of the District issuing new general obligation bonds, that were offset by payments against matured debt and debt that was defeased, or refinanced, during the year. General obligation bonds represent 83.7% of the District's outstanding bonds and notes, while TIF bonds and notes and QZAB represent 3.3% and Tobacco Bonds Outstanding represent 13.0% of the District's outstanding long-term debt.

The District had \$5,887 of general obligation debt per capita (D.C. resident) as of September 30, 2003, an increase of \$1,071, or 22.2% from the amount on September 30, 2002 of \$4,816 per resident. This increase is due to the District's issuance of additional general obligation debt, and a decrease in the U.S. Census population estimate for the District. Please refer to Exhibit S-14, *Percent of General Obligation Debt to Assessed Value and General Obligation Debt Per Capita* on page 125.

Table 5 – Outstanding Bonds and Notes at September 30, 2003

Governmental Activities			
		2003	2002
General Obligation Bonds	\$	3,251,118	\$ 2,670,573
TIF Bonds and Notes		125,524	126,545
Qualified Zone Academy Bonds		3,327	3,582
Tobacco Bonds		506,550	514,280
Total	\$	3,886,519	\$ 3,314,980

Proposed Fiscal Year 2004 Budget

The District submitted its original fiscal year 2004 budget to the President of the United States on June 4, 2003. Please refer to Table 6, *Proposed Fiscal Year 2004 Budget – Revenues and Expenditures by Function*, below. The revised fiscal year 2003 budget requests a total of \$6,223,926 for the District is general, federal and private, and capital projects funds operations. This is made up of \$4,077,273 from local and other funds, \$1,615,802 from federal funds, and \$530,851 from capital projects funds. The total proposed District budget, after including the enterprise and other funds total of \$666,369, is now \$6,890,295.

It is extremely important to note that this budget has not yet been approved and signed into law, and as such, is still subject to revision. In addition, throughout the current fiscal year, both the District, and the federal government, may seek, and obtain, modifications to the fiscal year 2004 budget. The proposed budget is not usually the same budget that is enacted, and the approved budget is not usually the same budget that will complete the fiscal year.

The U.S. House of Representatives (House) and the U.S. Senate (Senate) must first approve the District's budget before it is sent to the President of the United States for his approval and signature. The District is required to submit a balanced budget that is based upon current revenue estimates that must be periodically updated by the District's Chief Financial Officer (CFO). After the District's budget is submitted, it is reviewed and voted upon by both the House and Senate's Budget Committees, in addition to their respective Appropriations Committees. This year, the District's budget was not approved and signed into law before the start of the 2003 fiscal year. The District was therefore required to spend at last year's approved levels until the budget was finally approved and signed into law.

Table 6 – Proposed Fiscal Year 2004 Budget - Revenues and Expenditures by Function

Government Function	General Fund	Federal & Private	Capital Projects	Total
Governmental Direction and Support	\$ 226,975	57,440	127,450	\$ 411,865
Economic Development and Regulation	185,446	91,202	16,921	293,569
Public Safety and Justice	735,660	11,599	34,410	781,669
Public Education System	990,016	178,011	182,194	1,350,221
Human Support Services	1,109,607	1,257,276	105,820	2,472,703
Public Works	321,773	5,274	64,056	391,103
Other	507,796	15,000	-	522,796
Total Governmental Funds - Operating	4,077,273	1,615,802	530,851	6,223,926
Enterprise and Other Funds	666,369	-	-	666,369
Grand Total, District Government	\$ 4,743,642	1,615,802	530,851	\$ 6,890,295

Fiscal Year 2004 Debt Issuances

On December 11, 2003, the District issued its fixed-rate Series 2003B General Obligation Bonds in the aggregate amount of \$173,995 to finance a portion of the District's FY 2004 capital improvements program. Also, on December 11, 2003, the District issued its variable-rate Series 2003C and 2003D Multimodal General Obligation Bond in the aggregate principal amount of \$140,325 to also finance a portion of the District's FY 2004 capital improvements program. The final maturities of the 2003B, 2003C and 2003D Bonds are June 1, 2021, 2028, and 2026, respectively. On December 2, 2003, the District issued fixed-rate General Obligation Tax Revenue Anticipation Notes in the aggregate amount of \$250,000. The proceeds of these notes are being used to fund the District's seasonal cash flow needs. These notes were issued as fixed-rate notes, and mature on September 30, 2004. Please see Note 14-A. *Subsequent Events - Issuance of Bonds, Notes and Other Obligations* on page 90 for additional information.

Bankruptcy of Greater Southeast Community Hospital

On November 20, 2002, the Greater Southeast's parent corporation, Doctors Community HealthCare Corporation and Greater Southeast filed for bankruptcy. As a result, Greater Southeast had to lay off some of its administrative and health care staff. Greater Southeast was the prime contractor for the Healthcare Alliance that was administering the District's Health Care Safety Net program at the time.

The District, the U.S. Center for Medicare and Medicaid services, and the U.S. Bankruptcy Court (Court) made decisions that allowed Greater Southeast to continue operations by releasing funds, or expediting payments, to Greater Southeast to pay essential employees, contractors and vendors, and to give the hospital an opportunity to resolve its financial problems. The subsequent outcome of these decisions has had a tremendous impact on the near-term future and effectiveness of the District's indigent health care system and its costs, and has also seriously impacted other private acute care hospitals located in the District.

In October 2003, the Mayor announced that discussions had begun with Howard University Hospital about the possibility of building a new hospital facility in the area known as Reservation 13, a 67-acre tract in Southeast, D.C. that includes the old D.C. General Hospital campus.

On December 17, 2003, a group led by the founder of Greater Southeast's parent company won the bankruptcy auction for the hospital, and three other hospitals, bidding approximately \$151 million. This bid was selected over the aggregate bids by four individual investor groups. The winning bid must be approved by the U.S. Bankruptcy Court, and a decision is expected in FY 2004. It is not yet decided, or known, what will be the outcome of the District's indigent health care system, including who will manage it, how much it will cost, and the timing and implementation of these decisions.

Contacting the District's Office of the Chief Financial Officer

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For additional information on the District's component units: the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia, please refer to page 49 of the notes to the basic financial statements that has contact information for those organizations. If you have any questions about this report, the District's Fiscal year 2003 CAFR, suggestions for improvement, or need additional financial information, please contact:

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